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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the period ended 6/30/92

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-16437

BANKWORCESTER CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	04-2957564
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
365 Main Street, Worcester, MA	01608
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 508-831-4000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _____

6,609,600 shares of the registrant's common stock were outstanding on June 30, 1992.

BankWorcester Corporation and Subsidiary

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BankWorcester Corporation and Subsidiary
Consolidated Balance Sheets
(Unaudited)

	June 30, 1992	December 31, 1991	June 30, 1991
		(In Thousands)	
Assets			
Cash and due from banks	$34,873	$37,486	$32,429
Federal funds sold	94,000	107,500	104,000
Interest bearing deposits in other banks	3,462	125	51
Total cash and cash equivalents	132,335	145,111	136,480
Investment securities – market value $186,734,000, $152,967,000 and $92,004,000	185,988	150,255	91,797
Mortgage–backed securities – market value $67,515,000, $59,409,000 and $30,687,000	67,142	56,709	30,581
Loans, less allowance for possible loan losses of $17,074,000, $23,044,000 and $24,274,000	987,086	999,132	988,486
Land, buildings and equipment, net	16,461	14,109	13,192
Real estate acquired through foreclosure or substantively repossessed	20,107	16,925	13,492
Accrued income receivable	10,152	10,879	9,725
Costs in excess of net assets acquired	9,337	9,658	7,205
Prepaid expenses and other assets	18,152	11,699	12,045
	$1,446,740	$1,414,507	$1,303,003
Liabilities and Stockholders' Equity			
Deposits:			
Non–interest bearing accounts	$58,891	$67,205	$42,466
NOW	167,850	177,601	184,275
Savings	222,430	221,628	182,948
Money market	310,136	264,331	239,317
Time	479,137	539,626	513,980
Total deposits	1,258,444	1,270,391	1,162,986
Borrowed funds	42,377	18,551	21,453
Accrued and deferred income taxes	3,846	1,466	1,498
Other liabilities	10,708	6,599	3,984
Total liabilities	1,315,375	1,297,007	1,189,921
Commitments and contingencies	–	–	–
Stockholders' equity:			
Serial preferred stock – par value $0.10 per share; authorized 30,000,000 shares; none issued	–	–	–
Common stock – par value $0.10 per share; authorized 60,000,000 shares, issued 8,160,000 shares	816	816	816
Additional paid–in capital	96,463	96,463	96,463
Retained earnings	58,422	44,720	40,466
	155,701	141,999	137,745
Cost of common stock in treasury – 1,550,000 shares	(23,926)	(23,926)	(23,926)
Unearned compensation – ESOP	(410)	(573)	(737)
Total stockholders' equity	131,365	117,500	113,082
	$1,446,740	$1,414,507	$1,303,003

See accompanying notes to consolidated financial statements.

BankWorcester Corporation and Subsidiary
Consolidated Statements of Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	1992	1991	1992	1991
	(In Thousands Except per Share Data) (Unaudited)			
Interest and dividend income:				
Loans	$20,484	$24,316	$42,128	$48,780
Investment securities	2,820	1,058	5,236	1,564
Federal funds sold and short-term investments	840	1,378	1,711	3,735
Mortgage-backed securities	1,276	853	2,697	730
Dividends on stocks	136	169	267	317
Total interest and dividend income	25,556	27,464	52,039	55,226
Interest expense:				
Deposits	12,631	16,460	26,000	34,230
Borrowed funds	409	241	817	640
Total interest expense	13,040	16,701	26,817	34,870
Net interest and dividend income	12,516	10,763	25,222	20,356
Provision for possible loan losses	1,000	2,000	2,000	4,000
Net interest and dividend income after provision for possible loan losses	11,516	8,763	23,222	16,356
Non-interest income:				
Loan servicing and other fees	443	376	942	738
Deposit account servicing fees	1,213	972	2,215	1,814
Gain from sales of investments	85	11	89	506
Gain from sales of other assets	560	53	907	166
Other	505	423	1,038	842
Total non-interest income	2,806	1,835	5,191	3,666
Non-interest expenses:				
Salaries and employee benefits	5,121	4,344	10,422	8,878
Building and equipment	1,575	1,434	3,207	2,937
Write-down of real estate acquired through foreclosure	335	168	564	241
Asset collection, holding and disposition costs	1,399	989	2,301	1,876
Other	2,545	2,517	5,013	4,706
Total non-interest expenses	10,976	9,452	21,507	18,638
Income before income taxes, extraordinary item and cumulative effect of change in accounting principle	3,344	1,166	6,906	1,584
Income tax expense	1,256	400	2,919	513
Income before extraordinary item and cumulative effect of change in accounting principle	2,088	766	3,987	1,071
Extraordinary item - Savings Bank Life Insurance Company, distribution of stock less applicable income taxes of $713,000	–	–	972	–
Cumulative effect of change in accounting principle	–	–	9,139	–
Net income	$2,088	$766	$14,098	$1,071
Weighted average shares outstanding	6,610	6,610	6,610	6,610
Earnings per common share:				
Income before extraordinary item and cumulative effect of change in accounting principle	$0.32	$0.12	$0.60	$0.16
Extraordinary item	–	–	0.15	–
Cumulative effect of change in accounting principle	–	–	1.38	–
Net income	$0.32	$0.12	$2.13	$0.16
Cash dividend declared per share	$0.03	$ –	$0.06	$ –

See accompanying notes to consolidated financial statements.

BankWorcester Corporation and Subsidiary
Consolidated Statements Of Changes in Stockholders' Equity
(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned Compensation ESOP	Total Stockholders' Equity
			(In Thousands)			
Balance, December 31, 1990	$816	$96,463	$39,395	($23,926)	($901)	$111,847
ESOP contribution	–	–	–	–	164	164
Net income	–	–	1,071	–	–	1,071
Balance, June 30, 1991	$816	$96,463	$40,466	($23,926)	($737)	$113,082
Balance, December 31, 1991	$816	$96,463	$44,720	($23,926)	($573)	$117,500
Cash dividends declared, $0.06 per share	–	–	(396)	–	–	(396)
ESOP contribution	–	–	–	–	163	163
Net income	–	–	14,098	–	–	14,098
Balance, June 30, 1992	$816	$96,463	$58,422	($23,926)	($410)	$131,365

See accompanying notes to consolidated financial statements.

BankWorcester Corporation and Subsidiary
Consolidated Statements of Cash Flows

	Six Months Ended June 30,	
	1992	1991
	(In Thousands) (Unaudited)	
Cash provided by operating activities:		
Net income	$14,098	$1,071
Adjustments to reconcile net income to net cash provided by operating activities:		
Receipt of Savings Bank Life Insurance stock dividend	(1,685)	–
Provision for possible loan losses	2,000	4,000
Depreciation and amortization of premises and equipment	1,102	905
Amortization of discounts and premiums	1,181	149
Deferred income taxes	(10,411)	572
Gain from sales of investments	(89)	(506)
Gain from sales of other assets	(907)	(166)
Write-down of real estate acquired through foreclosure	564	241
Net (increase) decrease in accrued income receivable	727	(186)
Amortization of costs in excess of net assets acquired	351	260
Net increase in prepaid expenses and other assets	2,686	738
Net increase in accrued income taxes	3,652	898
Net increase (decrease) in other liabilities	4,109	(2,044)
Other, net	170	(218)
Net cash provided by operating activities	17,548	5,714
Cash flows from investing activities:		
Purchases of investment securities	(70,556)	(84,340)
Proceeds from sales of investment securities	2,273	1,500
Maturities of investment securities	33,876	26,645
Purchases of mortgage-backed securities	(15,112)	(28,314)
Principal payments on mortgage-backed securities	4,401	293
Loans sold	54,339	2,535
Loans purchased	(14,000)	–
Net increase in loans	(40,729)	(953)
Purchase of land, buildings and equipment	(3,454)	(2,466)
Proceeds from sales of other real estate owned	7,155	389
Net cash used in investing activities	(41,807)	(84,711)
Cash flows from financing activities:		
Net increase (decrease) in deposits	(11,947)	21,721
Net increase in short-term borrowed funds	23,989	8,737
Payments on Federal Home Loan Bank advances	–	(15,000)
ESOP loan payments	(163)	(164)
Cash dividends declared on common stock	(396)	–
Net cash provided by financing activities	11,483	15,294
Net decrease in cash and cash equivalents	(12,776)	(63,703)
Cash and cash equivalents at beginning of period	145,111	200,183
Cash and cash equivalents at end of period	$132,335	$136,480
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period:		
Interest on deposits and borrowed funds	$28,551	$35,368
Income taxes	(2,886)	(957)
Non-cash transactions:		
Real estate acquired through foreclosure or substantively repossessed	$10,255	$4,311

See accompanying notes to consolidated financial statements.

BankWorcester Corporation and Subsidiary

Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair statement of the results for the interim periods presented of BankWorcester Corporation ("BankWorcester" or the "Corporation") and its subsidiary, Worcester County Institution for Savings ("the Bank"). The results of operations for the interim periods ended June 30, 1992, are not necessarily indicative of the results for the entire year. It is suggested that these statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Corporation's Annual Report on Form 10-K.

2. Commitments and Contingencies

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to originate loans and standby letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Management does not anticipate any material losses as a result of these transactions and no specific reserves have been established. There are no financial instruments with off-balance sheet risk at June 30, 1992, which relate to customers with non-accrual, past due or restructured loans.

Financial instruments with off-balance sheet risk at June 30, 1992 are as follows:

Financial instruments whose contract amounts represent credit risk:	Contract Amount (In Thousands)
Commitments to originate loans	$ 26,196
Standby letters of credit	9,818
Unused lines of credit	124,757
Unadvanced portions of construction loans	2,807

3. Reclassification

Certain amounts in the 1991 financial statements have been reclassified to conform to the 1992 presentation without effect on stockholders' equity or net income.

4. Extraordinary Item - Savings Bank Life Insurance Company Distribution of Stock

The Savings Bank Life Insurance (SBLI) system was merged into a newly-formed Massachusetts life insurance company at the end of 1991. In connection with this

reorganization, in the first quarter of 1992 BankWorcester received stock valued at $1.7 million on which applicable taxes of $713,000 have been provided. This distribution increased first quarter and six month net income by $972,000 or $0.15 per common share.

5. Income Taxes

In the first quarter of 1992, BankWorcester adopted Financial Accounting Standards Board Statement 109, "Accounting for Income Taxes," which changed the Company's method of accounting for income taxes from the deferred method required under Accounting Principles Board Opinion 11 to the asset and liability method. Under the deferred method, annual income tax expense is matched with pre-tax accounting income by providing deferred taxes at current tax rates for timing differences between the determination of net income for financial reporting and tax purposes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. In the first quarter of 1992, the cumulative effect of this change in accounting principle resulted in a $9.1 million increase in equity.

The components of income tax expense (benefits) for the periods indicated follow:

		Three Months Ended March 31, 1992	Three Months Ended June 30, 1992	Six Months Ended June 30, 1992
		(Dollars in thousands)		
Current	Federal	$ 161	$ (140)	$ 21
	State	96	101	197
	Total	257	(39)	218
Deferred	Federal	990	910	1,900
	State	416	385	801
	Total	1,406	1,295	2,701
Total book expense before extraordinary items		1,663	1,256	2,919
Extraordinary item - SBLI Stock		713	-0-	713
Change in accounting method		(9,139)	-0-	(9,139)
Total income tax expense (benefit)		$(6,763)	$1,256	$(5,507)

The difference between income tax expense computed by applying the statutory Federal income tax rate of 34% to income before income tax expense and the reported income tax expense (benefit) for the first and second quarters and six month period follows:

Expected tax rate	34.0%	34.0%	34.0%
Increase resulting from			
State income taxes, net of Federal benefit	9.5	9.6	9.5
Other	3.2	(6.0)	(1.2)
Effective income tax rate	46.7%	37.6%	42.3%

At March 31, 1992 and June 30, 1992, the Bank had gross deferred tax assets and gross deferred tax liabilities as follows:

	March 31, 1992	June 30, 1992
	(In thousands)	
Deferred tax asset:		
Allowance for loan losses	$8,506	$7,219
Deferred interest	118	114
Valuation adjustment of real estate owned	299	296
Other	71	138
Gross deferred asset	8,994	7,767
Valuation reserve	(78)	(78)
Net deferred tax asset	8,916	7,689
Deferred tax liablility:		
Core deposit amortization	1,563	1,637
Depreciation	892	886
SBLI stock distribution	713	713
Gross deferred liability	3,168	3,236
Net deferred tax asset	$5,748	$4,453

Deferred income taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences for the first and second quarters and six month period, and the tax effects of each are as follows:

	Three Months Ended		Six Months Ended
	March 31, 1992	June 30, 1992	June 30, 1992
Deferred interest expense	$ 59	$ 4	$ 63
Core deposit amortization	74	74	148
Valuation adjustment in retained earnings	6	2	8
Depreciation	(4)	(6)	(10)
Bad debts	1,236	1,288	2,524
Other	34	(67)	(33)
	1,405	1,295	2,700
Extrordinary item - SBLI stock distribution	713	-0-	713
Total deferred taxes	$ 2,118	$ 1,295	$ 3,413

6. Shareholder Rights Agreement

On June 23, 1992, the Board of Directors of BankWorcester Corporation (the "Company") declared a dividend distribution of one Preferred Stock Purchase Right (a "Right") for each outstanding share of Common Stock of the Company (the "Common Stock") to stockholders of record as of the close of business on July 6, 1992 (the "Record Date"). Each Right entitles the registered holder to purchase from the Company a unit consisting of one one-hundredth of a share (a "Unit") of Series A Junior Participating Cumulative Preferred Stock, par value $0.10 per share (the "Preferred Stock"), at a cash exercise price of $50.00 per Unit (the "Exercise Price"), subject to adjustment. The description and terms of the Rights are set forth in a Shareholder Rights Agreement between the Company and the Bank of New York, as Rights Agent (the "Rights Agreement"). A copy of the Shareholder Rights Agreement has been filed with the Securities and Exchange Commission as an Exhibit to a Current Report on Form 8-K dated June 23, 1992.

Item 2.
Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

Net income for the second quarter ended June 30, 1992, increased to $2.1 million or $0.32 per share of common stock from $766,000 or $0.12 per share for the same quarter last year. Non-performing assets declined for a fifth consecutive quarter, totaling $44.9 million versus $56.8 million at the end of the 1992 first quarter and $72.8 million at the end of the second quarter last year.

The increase in 1992 second quarter net income was due to higher net interest and dividend income and a lower provision for possible loan losses compared to last year's corresponding period. The 1992 second quarter provision for possible loan losses totaled $1.0 million; it was $2.0 million in last year's corresponding period. Net charge-offs for the 1992 second quarter were $4.0 million compared to $4.3 million in the second quarter of last year. After the provision and net charge-offs, the loan loss allowance totaled $17.1 million or 115.2% of non-performing loans compared to $24.3 million or 63.5% on June 30, 1991. The weighted average interest rate spread for the quarter grew to 3.30% from 3.05% in the same period last year, primarily because of faster repricing of interest-bearing liabilities than earning assets in a declining interest rate environment. For the same reason, the net yield on average earning assets also increased and was 3.68% compared to 3.59% for the second quarter of 1991. The continued use of deposit funds gained in the fourth quarter acquisition of the former Merchants National Bank increased investment income, and this contributed to the expansion of the net yield on average earning assets.

At the end of June 1992, management estimated that there were approximately $7.6 million of potential problem loans, defined as currently performing loans about which management has serious doubts about the ability of the borrowers to comply with all of their present loan repayment terms. This is lower than the estimate of $7.9 million in the second quarter of 1991 but higher than the $6.0 million estimate at the end of the 1992 first quarter. The increase in the second quarter estimate is primarily due to greater risk associated with several commercial real estate loans, where properties have had increased vacancies. Most potential problem loans continue to relate to commercial real estate. The ultimate status or resolution of these loans is not yet known and will depend in part upon changes in the economy and real estate market.

Because of weak business conditions, there can be no assurance that non-performing assets will not increase or that declines in collateral values will not necessitate additional write-downs, additional provisions for possible loan losses or charge-offs in the future.

Results of Operations for the Three Month Period Ended June 30, 1992, Compared to the Corresponding Period in 1991.

Net Income/Loss

BankWorcester's net income for the second quarter of 1992 was $2.1 million or $0.32 per common share compared to net income of $766,000 or $0.12 per share for the same quarter in 1991.

Net Interest and Dividend Income

Net interest and dividend income in the second quarter increased to $12.5 million from $10.8 million in the same quarter last year, because of the effect of the acquisition of $162.2 million of deposits and selected loans of two failed banks since last year's corresponding quarter, and the use of the deposit funds since then. Average interest-bearing liabilities of $1.2 billion also repriced more quickly than average earning assets of $1.4 billion in a declining market interest rate environment, contributing much to the increase in net interest and dividend income. Specifically, total interest income for the 1992 quarter declined slightly to $25.6 million from $27.5 million in the 1991 second quarter, while total interest expense in the 1992 quarter declined more substantially, totaling $13.0 million compared to $16.7 million in last year's corresponding quarter.

Both average earning assets and interest-bearing liabilities grew year over year because of the use of acquired deposits and selected assets of failed banks since last year's second quarter. Primarily because of the assets gained from these failed bank acquisitions, the net yield on average earning assets grew to 3.68% from 3.59% in the second quarter of last year.

Because of all the factors mentioned above, the weighted average interest rate spread in the 1992 second quarter expanded to 3.30% from 3.05% in the same period last year.

Provision for Possible Loan Losses

Management provided $1.0 million for possible loan losses in the 1992 second quarter compared to $2.0 million for the same period in 1991. Management considers many factors in determining what amount to provide for possible loan losses; among these are the size and risk characteristics of loans, charge-off experience, loan delinquency rates, the value of collateral securing loans, future loss potential, and economic and market conditions, all of which can change frequently.

Net charge-offs of $4.0 million in the 1992 second quarter were less than $4.3 million for the same quarter last year. Non-performing loans declined to $14.8 million on June 30, 1992, from $38.2 million on the same date last year. Restructured loans totaled $9.9 million at the end of the 1992 second quarter compared to $21.1 million on the same date last year. Real estate acquired through foreclosure or substantively repossessed increased to $20.1 million on June 30, 1992, compared to $13.5 million on the same date last year (see "Asset Quality").

Non-Interest Income

Non-interest income rose to $2.8 million from $1.8 million in the second quarter of last year. Loan servicing and other fees increased to $443,000 in the 1992 quarter from $376,000 in the corresponding 1991 quarter. Deposit account servicing fees increased to $1.2 million in the 1992 quarter from $972,000 in the same period in 1991. Growth of loan and deposit-related fee income in 1992 was due to increases in fees charged and a higher volume of deposits. Non-interest income included a $85,000 gain on the sale of investments compared to $11,000 in the second quarter of 1991. Gains from the sales of other assets, which was primarily composed of other real estate owned, contributed $560,000 to non-interest income compared to $53,000 in the corresponding period last year.

Non-Interest Expense

Total non-interest expense was $11.0 million or 3.05% of average assets in the second quarter of 1992 versus $9.5 million or 3.00% of average assets in the corresponding quarter last year. Increases in salaries and benefits and building and equipment expense in the 1992 quarter versus the corresponding period in 1991 were primarily due to the additional cost of operating former Merchants National and ComFed locations acquired in the third and fourth quarters of 1991. Salaries and employee benefits grew to $5.1 million in the second quarter from $4.3 million in the same quarter last year, due to the larger staff and scheduled salary increases. Building and equipment expense for the 1992 quarter also increased and was $1.6 million compared to $1.4 million in the corresponding period in 1991. This increase was due to the cost of operating additional locations. During the second quarter, petitions were filed to close two limited service facilities located in Leominster and Fitchburg. These facilities were subsequently closed. The financial impact of these closing will not be material.

Write-downs of other real estate owned during the 1992 second quarter totaled $338,000 compared to $168,000 in the same period last year. Asset collection, holding and disposition costs in the quarter increased, totaling $1.4 million compared to $989,000 in the same period in 1991. Other expense was $2.5 million, virtually the same as in the second quarter of 1991. Net operating expense (total non-interest expense less non-interest income) was 2.27% of average assets versus 2.41% in the same quarter last year. Total interim expenses associated with operating Merchants National during the quarter were approximately $140,000.

Income Taxes

For the 1992 second quarter, BankWorcester's income taxes totaled $1.3 million for an effective tax rate of 37.6%, compared to $400,000 for an effective rate of 34.3% for last year's corresponding quarter.

The 1992 second quarter effective tax rate was higher because it was affected by a number of factors, including the statutory rates, the non-deductibility of the provision for possible loan losses and the amount of deductible loan charge-offs. The effects of the Financial Accounting Standards Board (FASB) Statement 109 are reflected in the June 30, 1992, quarter; Accounting Principles Board (APB) Statement 11 was applied to the June 30, 1991, quarter. (See Note 5 of Notes to Consolidated Financial Statements).

Results of Operations for the Six Month Period Ended June 30, 1992, Compared to the Corresponding Period in 1991.

Net Income

For the six months ended June 30, 1992, net income was $14.1 million or $2.13 per share compared to $1.1 million or $0.16 per share for the same period in 1991. Net income in 1992 included $9.1 million or $1.38 per share due to the cumulative effect of a change in accounting principle that resulted from the adoption of FASB Statement 109, and $972,000 or $0.15 per share recorded as an extraordinary item for the distribution of stock from the Savings Bank Life Insurance Company.

Net Interest and Dividend Income

Net interest and dividend income for the first six months of 1992 increased to $25.2 million from $20.4 million for the same period last year. This increase occured in part

because of the use of funds from the fourth quarter 1991 acquisition of deposits and selected loans from two failed banks. Faster repricing of average interest-bearing liabilities than average earning assets in a period of declining market interest rates also contributed to the increase in net interest and dividend income. Total interest income for the first six months of 1992 declined to $52.0 million from $55.2 million for last year's corresponding quarter, while interest expense declined to $26.8 million from $34.9 million. Lower cost deposits gained from failed bank acquisitions also helped lower the Bank's overall liability costs. Because of these factors, the weighted average interest rate spread grew to 3.34% in 1992 from 2.79% for the same period in 1991.

Both average earning assets and average interest-bearing liabilities increased year over year, reflecting the effect of acquisitions since June, 1991. Because of the increased assets and faster repricing of deposits, the net yield on average earning assets grew to 3.73% in 1992 from 3.36% for the 1991 six month period.

Average loans of $1.0 billion for the first six months of 1992 were virtually the same as for the corresponding period last year, but the loan mix changed. Commercial loans continued to decline, while residential and consumer loans increased; average investment securities and mortgage-backed securities increased, but average short-term investments decreased.

Provision for Possible Loan Losses

For the first six months of 1992, $2.0 million was provided for possible loan losses versus $4.0 million for the same period in 1991. Non-performing loans decreased year-over-year and were $14.8 million at the end of June 1992, compared to $38.2 million at the end of June 1991. Net charge-offs for the first half of 1992 totaled $8.0 million compared to $8.9 million in last year's corresponding period. After the provisions and net charge-offs, the allowance for possible loan losses totaled $17.1 million or 115.2% of non-performing loans compared to $24.3 million or 63.5% at the end of last year's same period.

Non-Interest Income

Non-interest income was $5.2 million for the 1992 six month period compared to $3.9 million in the first half of 1991. Higher loan servicing and other fees and higher deposit account servicing fees contributed to the increase in 1992 non-interest income. Loan servicing and other fees were $942,000 in 1992 versus $738,000 in 1991, and deposit account servicing fees totaled $2.2 million compared to $1.6 million. Gains from the sales of investments of $89,000 in 1992 were less than $506,000 reported for the same period last year, but gains from the sale of assets of $907,000 were higher than $166,000 last year. Other income of $1.0 million for the first six months of 1992 was also higher than $842,000 for the corresponding period in 1991.

Non-Interest Expense

Non-interest expense was $21.5 million or 3.00% of average assets in the 1992 six month period compared to $18.6 million or 2.94% of average assets in the corresponding period last year. Higher salaries and employee benefits of $10.4 million versus $8.9 million last year were attributable to the additional operations acquired since June, 1991. Building and equipment expense rose for the same reason, totaling $3.2 million for the first six months of 1992, compared to $2.9 million for the same period last year. Write-down of real estate acquired through foreclosure increased to $564,000 from

$241,000 in 1991, reflecting movement of real estate associated with problem loans into other real estate owned. Asset collection, holding and disposition costs also increased and were $2.3 million in 1992 versus $1.9 million last year. Other expense grew to $5.0 million from $4.7 million for the first six months of 1991. Net operating expense (total non-interest expense less non-interest income) was 2.28% of average assets compared to 2.33% in the same period last year. Total interim expenses associated with operating Merchants National were approximately $700,000 for the six month period. These operations are now fully integrated into the Bank.

Income Taxes

Income taxes for the first six months of 1992 totaled $2.9 million for an effective tax rate of 42.3%, compared to $513,000 or 32.4% for the corresponding period last year.

The effective tax rate in 1991 was lower because it was affected by a number of factors, including the statutory rates, the non-deductibility of the provision for possible loan losses and the amount of deductible loan charge-offs. The effects of FASB 109 are reflected in the June 30, 1992, six month period; APB 11 was applied to the June 30, 1991, six month period.

The initial effect of adopting FASB 109 is shown as a cumulative effect of change in accounting principle and was adopted in the first quarter of 1992. The change, which resulted in a benefit of $9.1 million, created a deferred tax asset in the same amount, and primarily represents book provisions for loan losses being treated as timing differences; under APB-11, they were permanent differences. Bank regulators are conferring as to acceptance of this accounting principle and the bank is reporting to regulators as if FASB-109 had not been adopted. (See Note 5 of Notes to Consolidated Financial Statements).

Balance Sheets

Total assets on June 30, 1992, were $1.4 billion, an increase from $1.3 billion on the same date last year. This increase was due to the acquisition of deposits and selected assets of failed banks since the end of last year's corresponding period. Deposits grew to $1.3 billion on June 30, 1992, from $1.2 billion at the end of June last year. Balances of investment securities and mortgage-backed securities most reflected the increase in assets. Mortgage-backed securities totaled $67.1 million at the end of June, 1992, compared to $30.6 million at the end of June 1991. Net loans were $987.1 million, approximately the same as $988.5 million at June 30, 1991, this lack of growth was due to economic conditions and less loan demand. Investment securities at the end of June, 1992, totaled $186.0 million compared to $91.8 million on the same date last year.

Stockholders' equity on June 30, 1992, totaled $131.4 million or $19.87 per common share, an increase from $113.1 million or $17.11 per share at the end of June, 1991. Tangible book value (stockholders' equity less the costs in excess of net assets acquired) was $18.46 at June 30, 1992.

Asset Quality

BankWorcester's non-performing assets continued to decline for a fifth consecutive quarter, totaling $44.9 million, compared to $72.8 million at the end of the first half of 1991. Reasons for the decrease in non-performing assets include net charge-offs ($8.0 million for the first half of 1992), but also include liquidations, successful workouts and the emergence of fewer new non-performing assets. Restructured loans declined to $9.9 million at June 30, 1992, compared to $21.1 million on the same date last year and $22.3

million at the end of March, 1992. The reduction from March, 1992, was largely due to $6.9 million of one loan moving to real estate acquired through foreclosure and $2.0 million of that loan being charged off; a $3.6 million loan becoming performing; and principal reductions. These loans are typically restructured at below market interest rates and secured by additional collateral.

Analysis of Restructured Loans

Restructured Loans	Principal Balance	Weighted Average Old Rate	Weighted Average New Rate	Quarterly Amount of Foregone Interest
June 30, 1991	$21,105,000	10.41%	5.98%	$234,000
September 30, 1991	21,605,000	9.71	6.04	197,000
December 30, 1991	22,181,000	9.41	5.47	181,000
March 31, 1992	22,263,000	8.73	5.31	173,000
June 30, 1992	9,946,000	6.82	3.61	72,976

The components of non-performing assets, which include restructured loans, are contained in the accompanying table. The table also illustrates the trends that have occurred over the last four quarters.

Non-Accrual, Past Due and Restructured Loans and Other Real Estate Owned
(In thousands)

	June 30, 1992	March 31, 1992	December 31, 1991	September 30, 1991	June 30, 1991
Non-accrual loans	$10,181	$13,448	$16,589	$25,483	$31,972
Loans past due 90 days or more and still on accrual	4,637	5,449	6,087	6,079	6,270
Non-performing loans	14,818	18,897	22,676	31,562	38,242
Restructured loans	9,946	22,263	22,181	21,605	21,105
Real estate acquired through foreclosure and loans substantively repossessed	20,107	15,659	16,925	12,479	13,492
	$44,871	$56,819	$61,782	$65,646	$72,839

At the end of June, 1992, management estimated there were approximately $7.6 million of potential problem loans in addition to the loans contained in the table. This estimate is just slightly lower than $7.9 million at the end of the first half of 1991 but higher than the $6.0 million estimate at the end of the 1992 first quarter. The increase in the second quarter

estimate is primarily due to greater risk associated with several commercial real estate loans, where properties have had increased vacancies. Most of the potential problem loans relate to commercial real estate, and while they are currently performing, management has serious doubts as to the ability of the borrowers to continue to comply with all of their present loan repayment terms. The ultimate status or resolution of these loans is not yet known and will in part depend upon changes in the economy and real estate market. A number of factors have adversely affected the Bank's customers; among these are continued depressed economic conditions and unsatisfactory vacancy rates.

BankWorcester's primary source of asset quality problems continues to be in the commercial loan portfolio, and most are commercial real estate loans and loans involving hotels and motels. Commercial construction, commercial real estate and other commercial loans accounted for 70% of non-performing loans at June 30, 1992; residential mortgages represented 25%, and the remaining 5% consisted of consumer loans.

Non-Performing Loan Analysis

	At June 30, 1992				At 6/30/92	12/31/91	6/30/91
Loan Type	Share of Total Loans Outstanding	Total Loans Outstanding	Non-performing Loans	Share of Non-performing Loans	Percent of Non-performing Loans in Type		
(Dollars in Thousands)							
Commercial Loans:							
Construction	3%	$ 30,384	$ 2,837	19%	9.3%	5.6%	11.4%
Real estate	24	234,692	5,182	35	2.2	4.9	8.9
Other	10	103,441	2,352	16	2.3	2.9	3.9
Residential loans	45	455,258	3,667	25	0.8	1.1	1.3
Consumer loans	18	180,395	780	5	0.4	0.6	0.7
Total	100%	$1,004,160	$14,818	100%	1.5%	2.2%	3.8%

Other segments of the loan portfolio have also been affected by economic and market conditions. Non-performing assets in the single family residential and consumer loan portfolios have shown marked improvement since last year's second quarter. However, if current conditions do not improve or get worse problems in these areas of the portfolio could become more significant. The allowance for possible loan losses at the end of the 1992 first half totaled $17.1 million or $115.2% of non-performing loans compared to $24.3 million or 63.5% of non-performing loans at the same time last year. The following table analyzes changes in the allowance for possible loan losses over the last four quarters.

Analysis Of The Allowance for Possible Loan Losses

(In Thousands)	For the Three Months Ended June 30, 1992	March 31, 1992	December 31, 1991	September 30, 1991	June 30, 1991
Allowance, beginning of period	$20,120	$23,044	$22,098	$24,274	$26,611
Provision, charged to expense	1,000	1,000	2,100	2,000	2,000
	21,120	24,044	24,198	26,274	28,611
Loans charged off:					
Commercial	3,580	3,250	869	3,237	4,000
Residential	747	686	372	600	531
Consumer	241	270	247	492	348
Total charge-offs	4,568	4,206	1,488	4,329	4,879
Recoveries on loans previously charged off:					
Commercial	344	231	254	89	446
Residential	149	17	48	43	31
Consumer	30	34	32	21	65
Total recoveries	522	282	334	153	542
Net loans charged off	4,046	3,924	1,154	4,176	4,337
Allowance, end of period	17,074	$20,120	$23,044	$22,098	$24,274
Total loans	$1,004,160	$1,010,222	$1,022,176	$1,004,936	$1,012,760
Allowance as a % of:					
Total loans	1.7%	2.0%	2.3%	2.2%	2.4%
Non-performing loans	115.2%	106.5%	101.6%	70.0%	63.5%
Non-performing assets	38.1%	35.4%	37.3%	33.7%	33.3%

There can be no assurances that non-performing assets will not increase further or that declines in collateral values will not necessitate additional write-downs, increases in the allowance for possible loan losses or charge-offs in the future.

Liquidity and Capital Resources

The Corporation's only source of funds is dividends from the Bank and earnings on funds not distributed to stockholders. The primary sources of funds for the Bank include cash flows generated from operations, collections of principal payments and prepayments on outstanding loans, increases in deposits, and advances from the Federal Home Loan Bank ("FHLB") of Boston.

The Bank's liquidity increased in the first half of 1992, due to greater available funds from an increase of in cash from operations, loan payoffs, and cash from transferred

deposits from the former Leominster branch of ComFed and Merchants National Bank operations. Because of reduced loan volume, most of these funds were utilized in the investment portfolio. Investment securities, including short-term investments and mortgage-backed securiities, at June 30, 1992, totaled $350.6 million compared to $226.4 million on the same date in 1991. These investments provide the Bank funds to meet any large deposit fluctuations or increased loan demand, should either occur. On June 30, 1992, the Bank had the capacity to borrow up to $139.1 million from the FHLB of Boston and, with the purchase of additional FHLB of Boston stock, had the capacity to borrow up to $434.0 million.

The Statement of Cash Flows shows a decrease in cash and cash equivalents of $12.8 million for the six months ended June 30, 1992. This was due primarily to investing activities. During the six month period, cash received from loans sold, operating activities, and financing activities was invested in loans and securities.

The Corporation is regulated by (among others) the Federal Reserve Board ("FRB"). In January 1989, the FRB adopted risk-based capital guidelines for bank holding companies. On June 30, 1992, the Corporation's risk-based total capital ratio was 14.44%, its tangible core capital (Tier 1) ratio was 13.18%, and its leverage ratio was 8.48%, all of which exceed current regulatory requirements. BankWorcester's only subsidiary, Worcester County Institution for Savings, is "well-capitalized" according to the proposed Federal Deposit Insurance Corporation definition which calls for the ratios just mentioned to be at least 10%, 6%, and 5%, respectively.

The Corporation's capital to assets ratio was 9.08% at June 30, 1992.

BankWorcester Corporation and Subsidiary

Average Balance Sheets, Net Interest and Dividend Income, Net Yield on Average Earning Assets

	Three Months Ended June 30, 1992			Three Months Ended June 30, 1991		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
	(Dollars in Thousands)					
ASSETS						
Loans (1):						
Commercial	$372,298	$6,986	7.51%	$401,363	$9,178	9.15%
Residential	460,361	9,690	8.42%	452,201	10,898	9.64%
Consumer	178,906	3,808	8.51%	161,900	4,240	10.48%
Average loans, net of unearned income	1,011,565	20,484	8.10%	1,015,464	24,316	9.58%
Investment securities	186,928	2,958	6.33%	64,868	1,237	7.63%
Mortgage-backed securities	68,861	1,276	7.41%	24,556	553	9.01%
Short-term investments	92,932	840	3.62%	95,048	1,378	5.80%
Average earning assets	1,360,286	25,556	7.51%	1,199,936	27,484	9.16%
Non-earning assets:						
Allowance for possible loan losses	(20,280)			(27,232)		
Cash and due from banks	34,135			29,536		
Land, buildings and equipment, net	16,194			12,057		
Real estate acquired through foreclosure or substantively repossessed	16,162			15,241		
Other assets	34,801			32,334		
Average assets	$1,441,298			$1,261,872		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing deposits:						
NOW	$186,366	1,308	2.78%	$143,262	1,822	5.09%
Savings	217,300	1,951	3.59%	180,121	2,264	5.03%
Money market	304,604	3,393	4.31%	239,126	3,290	5.40%
Time	499,882	6,069	4.97%	513,435	9,144	7.12%
Average interest-bearing deposits	1,200,152	12,631	4.21%	1,075,944	16,460	6.12%
Borrowed funds	37,526	409	4.36%	17,784	241	5.42%
Average interest-bearing liabilities	1,237,678	13,040	4.21%	1,093,728	16,701	6.11%
Demand deposits	60,556			40,039		
Other liabilities	9,608			11,742		
Average liabilities	1,307,842			1,145,509		
Stockholders' equity	133,456			116,363		
Average liabilities and stockholders' equity	$1,441,298			$1,261,872		
Net interest and dividend income		$12,516			$10,783	
Weighted average interest rate spread			3.30%			3.05%
Net yield on average earning assets			3.68%			3.59%

(1) Loans on non-accrual are included in the average balances shown above. The variance due to rate includes the effect of less interest being earned on such loans than their contractual rates.

BankWorcester Corporation and Subsidiary
RATE–VOLUME ANALYSIS

Six Months Ended June 30	1992 Compared to 1991 Increase/(Decrease)		
		Variance due to (1)	
	Total Change	Rate	Volume
	(In Thousands)		
INCOME FROM INTEREST–EARNING ASSETS			
Loans:			
Commercial	($4,438)	($2,955)	($1,483)
Residential	(1,625)	(2,183)	558
Consumer	(589)	(1,588)	999
Total loans, net of unearned income	(6,652)	(6,726)	74
Investment securities	3,522	(469)	3,991
Mortgage–backed securities	1,967	(141)	2,108
Short–term investments	(2,024)	(1,224)	(800)
Total interest income	(3,187)	(8,560)	5,373
EXPENSE ON INTEREST–BEARING LIABILITIES			
Interest–bearing deposits:			
Now	(990)	(1,961)	971
Savings	(306)	(1,240)	934
Money market	(676)	(1,970)	1,294
Time	(6,256)	(5,501)	(757)
Total interest–bearing deposits	(8,230)	(10,672)	2,442
Borrowed funds	177	(196)	373
Total interest expense	(8,053)	(10,868)	2,815
Net interest income	$4,866	$2,308	$2,558

(1) Rate–volume variances have been allocated proportionately to rate and volume changes respectively.

Average Balance Sheets, Net Interest and Dividend Income, Net Yield on Average Earning Assets

	Six Months Ended June 30, 1992			Six Months Ended June 30, 1991		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
		(Dollars in Thousands)				
ASSETS						
Loans (1):						
Commercial	$371,007	$13,935	7.51%	$405,730	$18,373	9.06%
Residential	468,541	20,276	8.65%	458,663	21,901	9.59%
Consumer	181,285	7,917	8.73%	160,894	8,506	10.57%
Average loans, net of unearned income	1,020,833	42,128	8.25%	1,023,296	48,780	9.53%
Investment securities	172,730	5,503	6.37%	49,746	1,981	7.96%
Mortgage-backed securities	68,713	2,697	7.85%	15,506	730	9.42%
Short-term investments	90,924	1,711	3.76%	121,716	3,735	6.14%
Average earning assets	1,353,200	52,039	7.69%	1,210,264	55,226	9.13%
Non-earning assets:						
Allowance for possible loan losses	(21,648)			(29,376)		
Cash and due from banks	85,329			29,487		
Land, buildings and equipment, net	15,133			11,917		
Real estate acquired through foreclosure or substantively repossessed	15,282			12,616		
Other assets	33,953			34,973		
Average assets	$1,432,251			$1,269,883		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing deposits:						
NOW	$183,010	2,573	2.81%	$136,710	3,588	5.21%
Savings	221,997	4,218	3.80%	179,792	4,524	5.03%
Money market	288,517	6,097	4.23%	237,135	6,773	5.71%
Time	504,857	13,112	5.19%	526,170	19,370	7.36%
Average interest-bearing deposits	1,198,381	26,000	4.34%	1,079,808	34,230	6.34%
Borrowed funds	35,354	817	4.62%	20,605	640	6.21%
Average interest-bearing liabilities	1,233,735	26,817	4.35%	1,100,413	34,870	6.34%
Demand deposits	61,736			39,149		
Other liabilities	8,560			14,865		
Average liabilities	1,304,031			1,154,447		
Stockholders' equity	128,220			115,436		
Average liabilities and stockholders' equity	$1,432,251			$1,269,883		
Net interest and dividend income		$25,222			$20,356	
Weighted average interest rate spread			3.34%			2.79%
Net yield on average earning assets			3.73%			3.36%

(1) Loans on non-accrual are included in the average balances shown above. The variance due to rate includes the effect of less interest being earned on such loans than their contractual rates.

BankWorcester Corporation and Subsidiary
RATE–VOLUME ANALYSIS

Three Months Ended June 30	1992 Compared to 1991 Increase/(Decrease)		
		Variance due to (1)	
	Total Change	Rate	Volume
	(In Thousands)		
INCOME FROM INTEREST–EARNING ASSETS			
Loans:			
Commercial	($2,192)	($1,562)	($630)
Residential	(1,208)	(1,402)	194
Consumer	(432)	(847)	415
Total loans, net of unearned income	(3,832)	(3,811)	(21)
Investment securities	1,719	(244)	1,963
Mortgage–backed securities	723	(114)	837
Short–term investments	(538)	(508)	(30)
Total interest income	(1,928)	(4,677)	2,749
EXPENSE ON INTEREST–BEARING LIABILITIES			
Interest–bearing deposits:			
Now	(514)	(981)	467
Savings	(313)	(723)	410
Money market	53	(729)	782
Time	(3,055)	(2,652)	(403)
Total interest–bearing deposits	(3,829)	(5,085)	1,256
Borrowed funds	168	(56)	224
Total interest expense	(3,661)	(5,141)	1,480
Net interest income	$1,733	$464	$1,269

(1) Rate–volume variances have been allocated proportionately to rate and volume changes respectively.

Part II. Other Information

Item 1. Legal Proceedings. Not applicable.

Item 2. Changes in Securities. Not applicable.

Item 3. Defaults upon Senior Securities. Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders. Not applicable.

Item 5. Other Information. Not applicable.

Item 6. Exhibits and Reports on Form 8-K.

(a) No exhibits are required to be filed with this report.

(b) A copy of a Shareholder Rights Agreement has been filed as an Exhibit to a current report on Form 8-K dated June 23, 1992.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BankWorcester Corporation
(Registrant)

Date August 13, 1992

Harold Cabot
President and
Chief Executive Officer

Date 13 Aug 92

Anthony J. Keller
Executive Vice President and
Treasurer